SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56760; File No. SR-Phlx-2007-40)

November 7, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Granting Accelerated Approval to a Proposed Rule Change, as Modified by Amendment No. 3, Relating to Complex Orders

I.   Introduction

On May 21, 2007, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed

with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of

the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] a proposed rule

change to amend Phlx Rule 1066, "Certain Types of Orders Defined," to revise the definition of

"synthetic option," and to amend Phlx Rule 1083(c) to modify the definition of "Complex

Trade" as it relates to the Plan for the Purpose of Creating and Operating an Intermarket Options

Linkage ("Linkage Plan"). The Exchange filed Amendment No. 1 to the proposal on September

4, 2007, and withdrew Amendment No. 1 on October 1, 2007. The Exchange filed Amendment

No. 2 to the proposal on October 1, 2007, and withdrew Amendment No. 2 on the same day.

The Phlx filed Amendment No. 3 to the proposal on October 1, 2007.[3] The proposed rule

change, as modified by Amendment No. 3, was published for comment in the Federal Register

on October 11, 2007.[4] The Commission received no comments regarding the proposed rule

change, as amended. This order approves the proposed rule change, as modified by Amendment

No. 3, on an accelerated basis.

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   Amendment No. 3 replaces and supersedes the original filing and previous amendments in their entirety.

[4]   See Securities Exchange Act Release No. 56608 (October 3, 2007), 72 FR 57985.

II.   Description of the Proposal

        A.   Phlx Rule 1066(g)

        Currently, Phlx Rule 1066(g) defines a "synthetic option" as an order to buy or sell a

stated number of option contracts and the underlying stock or Exchange-Traded Fund Share in an

amount that would offset the options position on a one-for-one basis. The Phlx proposes to

amend Phlx Rule 1066(g) to define a "synthetic option" as an order to buy or sell a stated

number of units of an underlying stock or a security convertible into the underlying stock

("convertible security") coupled with either (i) the purchase or sale of option contract(s) on the

opposite side of the market representing either the same number of units of the underlying stock

or convertible security or the number of units of the underlying stock or convertible security

necessary to create a delta neutral position; or (ii) the purchase or sale of an equal number of put

and call option contracts, each having the same exercise price, expiration date, and each

representing the same number of units of stock as, and on the opposite side of the market from,

the stock or convertible security portion of the order.

        The revised definition of "synthetic option" will permit the purchase or sale of options on

the opposite side of the market representing the number of units of the underlying stock or

convertible security necessary to create a delta neutral position, rather than requiring that the

stock and option components of the synthetic option order offset each other on a one-for-one

basis. The revised definition is substantially similar to the definition of "stock-option order"

adopted by other U.S. options exchanges.[5]

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[5]   See, e.g., Amex Rule 950-ANTE(e)(viii)(1); CBOE Rule 1.1(ii); and ISE Rule
        722(a)(5)(i).

B.   Phlx Rule 1083(c)

The Phlx also proposes to amend Phlx Rule 1083(c) to revise the definition of "Complex Trade" for purposes of the Linkage Plan, which provides an exception to Trade-Through[6] liability and Satisfaction Order[7] liability when the transaction that caused the Trade-Through was the result of a Complex Trade. The proposed changes to Phlx Rule 1083(c) are almost identical to changes proposed by the other Linkage Plan Participants,[8] which the Commission is approving in a separate order today.[9]

Specifically, the Phlx proposes to revise Phlx Rule 1083(c) to: (1) provide that the option orders in a Complex Trade may be in a ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0); and (2) add a certain limited type of synthetic option order to the definition of Complex Trade. Phlx Rule 1083(c)(ii) defines a "stock-option order" as an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security"), coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of

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[6]   In connection with the Linkage Plan, a "Trade-Through" means a transaction in an options series at a price that is inferior to the National Best Bid or Offer ("NBBO"), but shall not include a transaction that occurs at a price that is one minimum quoting increment inferior to the NBBO provided a Linkage Order is contemporaneously sent to each Participant Exchange disseminating the NBBO for the full size of the Participant Exchange's bid (offer) that represents the NBBO. See Phlx Rule 1083(t).

[7]   In connection with the Linkage Plan, a Satisfaction Order is an order sent through the Linkage to notify a member of another Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through. See Phlx Rule 1083(k)(iii).

[8]   Phlx Rule 1083(c)(ii) refers to "stock-option orders" as synonymous with "synthetic option orders" to be consistent with the definitions proposed by the other Linkage Plan Participants.

[9]   See Securities Exchange Act Release No. 56761 (November 7, 2007) (order approving File Nos. SR-Amex-2007-65; SR-BSE-2007-45; SR-CBOE-2007-64; SR-ISE-2007-44; and SR-NYSEArca-2007-65) ("Complex Trade Order").

the underlying stock or convertible security; or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

III.   Commission Findings and Order Granting Accelerated Approval of the Proposed Rule Change, as Amended

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[10] In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[11] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the revised definition of "synthetic option" could help enable the Phlx to compete with other U.S. options exchanges whose definitions of "stock-option order" currently permit delta neutral positions, thereby increasing the number of markets in which customers may execute such orders. The Commission also believes that the proposed changes to Phlx Rule 1083(c) will ensure that the Phlx's definition of "Complex Trade" is consistent with the definition of "Complex Trade" adopted by the other Linkage Plan Participants. The Commission believes that by amending the definition of "Complex Trade" to include certain stock-option orders, as described above, and by providing a consistent definition

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[10]   In approving the proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[11]   15 U.S.C. 78f(b)(5).

of "Complex Trade" in the rules of the exchanges, the proposal may facilitate the execution of such Complex Trades.

The Commission finds good cause for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. The proposal was subject to a 21-day comment period, and the Commission received no comments on the proposal. In addition, as described more fully above, the revised definition of "synthetic option" in Phlx Rule 1066(g) is substantially similar to the definition of "stock-option order" adopted by other U.S. options exchanges[12] and does not raise new regulatory issues. Similarly, the proposed changes to Phlx Rule 1083(c) are nearly identical to changes proposed by the other Linkage Plan Participants that the Commission is approving in a separate order.[13] Accordingly, accelerated approval of the changes to Phlx Rule 1083(c) will ensure that the Phlx's definition of "Complex Trade" is consistent with the definition of "Complex Trade" adopted by the other Linkage Plan Participants. For these reasons, the Commission finds good cause, consistent with Sections 6(b)(5) and 19(b) of the Act, to approve the proposal, as amended, on an accelerated basis.

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[12]   See supra note 5.

[13]   See Complex Trade Order, supra note 9.

IV.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[14] that the

proposed rule change (SR-Phlx-2007-40), as modified by Amendment No. 3, is approved on an

accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated

authority.[15]

                                        Florence E. Harmon
                                        Deputy Secretary

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[14]   15 U.S.C. 78s(b)(2).

[15]   17 CFR 200.30-3(a)(12).